



## CyF Publications

Cyprus Tax:

Income from Intellectual Property

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*Delivering results on time ...*

Cyprus favourable IP tax regime, together with the protection offered by its status as an EU member state and by all major IP treaties and protocols, offer an ideal tax efficient base for IP owners.

P & V CY Fiduciary Services Ltd

P.O.Box 30021,  
5340 Ayia Napa, Cyprus

Tel. +357 23 721 070  
Fax +357 23 721 125

info@cyfiduciary.com  
www.cyfiduciary.com

## IP Protection

All relevant EU Directives and Regulations have been introduced into the domestic legislation, therefore, IP rights registered in Cyprus enjoy full protection in all EU Member States.

On an international level Cyprus is signatory to the European Community Trademarks, the Convention Establishing the World Intellectual Property Organization (WIPO), the Madrid Agreement, the Patent Cooperation Treaty, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms, the WIPO Performance and Phonograms Treaty, the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, the Trademark Law Treaty and the WIPO Beijing Treaty on Audiovisual Performances.

## Cyprus IP Tax Regime

It covers an extensive range of intangibles, regardless of whether they are registered in Cyprus or not, including, but not limited to:

- Patents
- Trade marks, Service Marks and Designs
- Copyrights such as scientific works, literary works (e.g. novels, manuals, theatre plays and dictionaries), musical works, artistic works (e.g. paintings, maps and architectural projects), sound recordings, films, broadcasts, databases, publications and software.

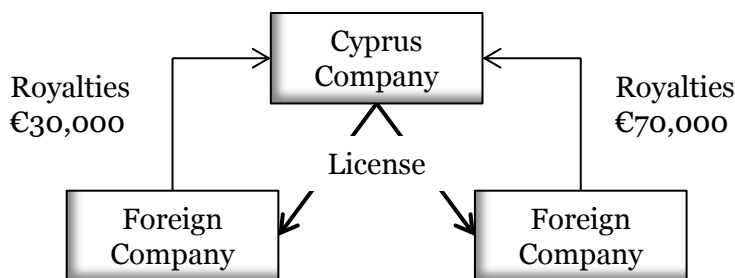
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Cyprus companies enjoy the following benefits:

- 80% income tax exemption on worldwide royalty income.
- 80% income tax exemption on profit generated from the disposal of IP.
- 80% income tax exemption on penalties received for the improper use of IP.
- The direct expenses incurred for the production of such income are deductible for tax purposes.
- Capital expenditure for the acquisition or for the development of IP are deductible for tax purposes over a five year period provided that the IP was acquired or developed after 01/01/2012.
- Cyprus' extensive double tax treaty network which reduce, or even eliminate, the foreign tax withheld on royalty payments.
- Access to the EU Interest and Royalty Directive.
- No tax withheld on payments of dividends to non-residents.

All of the above can result in an effective tax rate of 2% or less.

### Example – Taxation of Royalty Income



In the above example a Cyprus company licenses its IP to two foreign companies and it receives a total of €100,000 from royalties.

The income tax will therefore be calculated as follows:

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Royalty Income	€100.000
Direct Expenses	(€30.000)
<b>Gross Profit</b>	<b>€70.000</b>
80% Deduction	(€56.000)
Indirect Expenses	(€4.000)
<b>Taxable Profit</b>	<b><u>€10.000</u></b>
Corporation tax @12.5%	€1.250
<b>Effective Tax Rate</b>	<b>1.25%</b>

### Example – Taxation on Profits from the Disposal of IP

The Cyprus company decides to sell its IP for €1,000,000. The income tax will, therefore, be calculated as follows:

Sale Proceeds	€1.000.000
Cost of Acquisition of the IP	(€500.000)
Amortization Already Claimed	€300.000
<b>Profit on Sale of the IP</b>	<b>€800.000</b>
80% Deduction	€640.000
<b>Taxable Profit</b>	<b><u>€160.000</u></b>
Corporation tax @12.5%	€20.000
<b>Effective Tax Rate</b>	<b>2.00%</b>

**Our View:** The favourable Cyprus IT tax regime, together with the extensive network of double tax treaties under which foreign withholding taxes on royalties are either eliminated or reduced, offer excellent opportunities for tax efficient IP structures with immediate benefits.

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